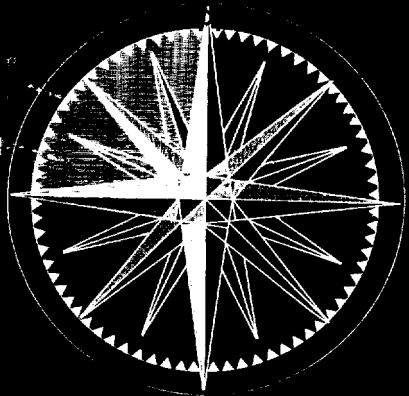


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SPECIAL REPORT

KOSYGIN'S PROPOSALS FOR REORGANIZING SOVIET ECONOMIC MANAGEMENT

CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

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KOSYGIN'S PROPOSALS FOR REORGANIZING SOVIET ECONOMIC MANAGEMENT

In a major speech to the plenum of the central committee on 27 September, Soviet Premier Kosygin proposed a shake-up in the administration of industry and greater autonomy for enterprise managers, but he offered no revolutionary plan for modernizing the Soviet economy. His proposals (1) abolish Khrushchev's regional economic councils and restore the system of industrial ministries first introduced by Stalin in 1932; and (2) increase the use in industrial enterprises of the so-called "economic levers": profit, bonuses, and a newly added lever--interest charges on the invested capital of enterprises. One of the most dramatic changes in store for the management of individual enterprises lies in the proposal to measure their future performance not by the traditional criterion--gross value of goods produced whether sold or not--but by the volume of output actually sold.

Kosygin's new program falls far short of proposals made by the more radical Soviet economists; some want a drastic reform of central planning through mathematical methods, whereas others want a decentralization of economic management through the use of simulated market prices. Kosygin's speech was short on the details and vague as to timing of the changes, and therefore the probable impact of the new program on Soviet economic performance is difficult to judge. The organizational changes, however, have been approved by the Supreme Soviet, and the transition to the new system apparently is to be completed by the end of 1965.

Kosygin's proposals go far enough to bring some slight improvements in management, but not far enough to give the Soviet economy the sharp increase in over-all performance that it needs. The chief consequence may be to increase pressure for further reform or, conversely, for a return to the system which prevailed before the plenum. Party First Secretary Brezhnev's strictures at the plenum against the traditional practice of taking resources out of agriculture to meet industrial goals will further compound the problem of improving Soviet industry.

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**COMPARISON OF KOSYGIN'S PROPOSALS
WITH MAJOR RECOMMENDATIONS OF LIBERAL SOVIET ECONOMISTS**

LIBERAL ECONOMISTS' PROPOSALS

KOSYGIN'S PROPOSALS

A. On enterprise assignments

Liberal economists advocate:

1. That in measuring the performance of an individual enterprise major emphasis be placed on profits;
2. That interest be charged on invested capital; and
3. That bidding by enterprises be substituted for assignment of tasks by central authorities.

Embodied in Kosygin's proposals.

Also included in Kosygin's program.

Not proposed.

B. On prices

1. One group of liberal economists holds the view that prices should be fixed on the basis of "full cost" of production, including capital charges.
2. Another school believes the central authorities should set "simulated market prices" arrived at by mathematical programming on computers.

Neither school's view was accepted by Kosygin.

C. On planning

The liberals are also at odds on planning:

1. One school of thought believes that the use of mathematical methods and the establishment of a national network of computer centers would permit central authorities to prepare "optimal" plans covering all products.
2. The other liberals believe that supply plans should be limited to a small number of key products.

Not proposed.

Kosygin implied this proposal would be adopted "eventually."

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Administrative Changes

The principal changes in the administrative structure are (a) the establishment of 28 ministries with responsibility for management of enterprises and development of their respective branches of industry, and (b) dissolution of the national, republic, and regional economic councils (Sovnarkhozes). The new ministries replace 24 state committees and will be responsible for the following: planning, plan implementation, material and technical supply of subordinate enterprises, financing, determination of technical policy, and management of resources and development within their respective branches.

Eleven of the new ministries--including all of those for sectors of machine building--are all-union ministries, and 17 are union-republic ministries. The republics are also empowered to establish ministries of their own to manage enterprises of purely local importance such as those producing consumer goods from local materials.

Other changes in economic administration include (a) the dissolution of the Supreme Council of National Economy and the apparent transfer of its functions to the USSR Council of Ministers and (b) the establishment of a new State Committee for Material and Technical Supply to handle the allocation of producer goods among ministries.

Kosygin also referred briefly to two additional changes

that would be made later. First, direct contracting between individual enterprises and their customers and suppliers will be increased, with centralized allocations through the material and technical supply system being replaced by freer trading arrangements. Second, many individual enterprises are to be managed eventually by a network of branch associations or firms subordinate to the industrial ministries.

Central Planning

Kosygin's proposals for changes in central planning are primarily organizational. He called for a strengthening of the State Planning Commission (Gosplan) to offset the powers of the new ministries and to forestall the growth of ministerial autarchy. He also proposed broader functions for republic planning commissions to coordinate regional plans and to prevent the development of antarchical tendencies on the republic level.

Kosygin called for more careful balancing of central plans and a fuller elaboration of long-range plans, but he proposed no fundamental changes in planning methods or procedures. For example, he did not mention recent proposals to apply mathematical methods and computers in planning. He suggested, however, that as direct contracting between enterprises is expanded, the amount of detail in the central plans should be reduced.

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CHANGES IN THE CENTRAL ASSIGNMENTS TO ENTERPRISES IN THE USSR

PRESENT SYSTEM

PROSPECTIVE SYSTEM

- | | |
|---|---|
| 1. Each enterprise has been expected to meet a centrally planned goal for gross value of its output (whether sold or not). | Enterprise will have to achieve an assigned gross value of sales. |
| 2. Central authorities have supplied a detailed list of main products to be turned out by the enterprise. | Central authorities will still supply a list of main products, but are to play a reduced role in deciding details and specifications as direct contracting between enterprises increases. |
| 3. Central authorities have assigned to the enterprise a quarterly delivery schedule of products and consignees. | Central authorities will continue to make up quarterly delivery schedules and specify consignees, but the increased use of direct contracting between enterprises will reduce assignments from above. |
| 4. Enterprise performance has been judged on basis of:
a. Over-all costs of production
b. Labor productivity
c. Total wage bill
d. Number of workers
e. Average wage paid (total wage bill divided by number of workers and employees).
f. Portion of profit transferred to state budget.
g. Other indicators, including assignments governing details on materials used, productivity of equipment, and costs of individual products. | Qualitative indicators in future will be:
a. Total profit
b. Profitability (profit as a percent of fixed and working capital)
c. Total wage bill
d. Portion of profit transferred to state budget (to be reduced; specific amount to be based on amount of funds received from state budget for working capital and new plant and equipment). |
| 5. Central authorities have made all decisions regarding introduction of new technology (development of new products and new production processes). | No change. |
| 6. Only a very small portion of an enterprise's capital investment has been financed from its own profits, the major share coming from the state budget as grants. | The portion of capital investment financed from enterprise profits is to be sharply increased. The portion coming from the state budget will be issued as credits that must be repaid. |

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Changes in Enterprise Management

Kosygin's proposals for improving the management of industrial enterprises call for a sharp reduction in the number of assignments from central authorities, extend the use of direct contracts between enterprises, increase the amounts of bonuses paid to managers and workers from "enterprise funds," empower the enterprises to administer part of their own investment programs, and introduce an interest charge on invested capital. Central controls are to be retained over investment in enterprises financed from the state budget, over the introduction of new technology, over prices of products, over wage rates, and initially over material and technical supplies. The proposals, which draw on the results of testing in both heavy industry and consumer industry enterprises over the past year, apparently apply to all branches of industry although some variations are implied in the details and timing of their implementation. The proposals were presented only in outline form; their details are to be worked out by various state agencies and implemented gradually between 1966 and 1968.

Under the proposals, each enterprise is to be given assignments for the main products to be produced, for the total value of sales, for the wage bill, and for the level of profit. Enterprises, however, now are freed from a large number of other detailed assignments--numbering 30 to 40 in some cases--such as number of workers, average wage paid, labor productivity, and produc-

tion costs. Targets in these cases will be incorporated by the enterprises into their own plans and will not be subject to change by the planning authorities --as is true at present.

Expansion of Direct Contracts

The use of direct contracting between enterprises will be increased under the proposals, "eventually" replacing the central allocations of some producer goods. No time schedule for this change is proposed, however. Under this system enterprises make their own arrangements with customers for sale of finished products and with supplies for purchases of materials. Such a system now is in operation in about 400 enterprises in light industry. Kosygin also asked for tighter discipline in interenterprise relations, such as more timely squaring of accounts and stiffer penalties for failure to fulfill agreements.

Larger Enterprise Funds

To increase the incentives of enterprises, Kosygin apparently believes that the size of the so-called "enterprise fund"--now fixed at 4-6 percent of planned profit at most enterprises--should be increased, varying directly with changes in sales volume, quality of production, and the level of profits. This fund would continue to be used, as at present, to modernize equipment, to supplement the bonuses now being paid to managers and workers from the wage fund, and to provide social and cultural facilities and workers'

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housing. Funds from this source used for plant modernization are to be augmented by allowing the enterprise to retain part of its allowances for depreciation that formerly were transferred to the state budget. Expenditures on modernization from internal depreciation funds apparently are to be completely administered by the enterprise director.

The supplementary bonuses from the enterprise fund, which constitute a form of profit sharing administrated by the enterprise, will be divided into two major components: (1) a series of payments during the year, and (2) one annual payment in an amount related directly to the recipient's length of service in order to discourage labor turnover. Kosygin appears to have proposed no major innovations in the present central bonus system for industrial managers. His only specific reference to this system is his proposal to make bonuses for overfulfillment of a low plan less than those for fulfillment of a high plan. This proposal has been a major feature of a new bonus system that has been tested in 85 heavy industry and consumer industry enterprises since April 1964.

Capital Charge Proposed

A striking innovation in the Kosygin reform package is the proposal for a form of capital charge. Enterprises will pay for their fixed and working capital by a charge against profits, with the result that any waste of capital will thereby reduce the share of profit avail-

able for the enterprise fund. The new method, described as a "long-term credit system," will be applied first in going concerns and apparently will be extended later to newly constructed plants. Ultimately, such capital charges are to become the major source of budget revenues and will enable the role of the turnover tax and other revenue sources to be reduced.

Price Revisions

Kosygin stated that new wholesale prices must be devised in order to enable "normally operating enterprises to obtain profits." He clearly recognized that price reform is crucial to the increased use of economic levers by calling for a new revision of prices to be carried out in 1967 and 1968, a period roughly coinciding with the implementation of the changes in enterprise management. His proposal implies that the general revision of industrial wholesale prices and transport tariffs carried out between 1962 and 1965 along traditional methods and scheduled for introduction on 1 January 1966 is to be postponed. He fails, however, to mention recent proposals by liberal economists to simulate market prices by the use of computers or to adopt full-cost prices which take account of interest on invested capital.

Personnel Changes

An extensive reshuffling of personnel among the top economic

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THE NEW SOVIET MINISTRIES

ALL-UNION MINISTRIES

HEAVY, POWER & TRANSPORT MACHINE BUILDING	V. F. Zhigalin*
CONSTRUCTION, ROADBUILDING & COMMUNAL MACHINE BUILDING	Ye. S. Novoselov
TRACTOR & AGRICULTURAL MACHINE BUILDING	I. F. Sinitsyn*
MOTOR VEHICLE INDUSTRY	A. M. Tarasov*
ELECTRICAL ENGINEERING INDUSTRY	A. K. Antonov*
INSTRUMENT MAKING, AUTOMATION & CONTROL SYSTEMS	K. N. Rudnev*
CHEMICAL & OIL MACHINE BUILDING	K. I. Brekhov
MACHINE-TOOL & TOOL MANUFACTURING INDUSTRY	A. I. Kostousov
MACHINE BUILDING FOR LIGHT & FOOD INDUSTRIES & PRODUCTION OF HOUSEHOLD APPLIANCES	V. N. Doyenin*
GAS INDUSTRY	A. K. Kortunov
TRANSPORT CONSTRUCTION INDUSTRY	Ye. F. Kozhevnikov

UNION-REPUBLIC MINISTRIES

FERROUS METALLURGY	I. P. Kazanets*	FOODSTUFFS INDUSTRY	V. P. Zotov*
NONFERROUS METALLURGY	P. F. Lomako*	MEAT & DAIRY INDUSTRY	S. F. Antonov*
COAL INDUSTRY	B. F. Bratchenko*	FISH INDUSTRY	A. A. Ishkov
CHEMICAL INDUSTRY	L. A. Kostandov	POWER & ELECTRIFICATION	P. S. Neporozhniy
PETROLEUM EXTRACTION	V. D. Shasin*	GEOLOGY	A. V. Sidorenko
PETROLEUM REFINING & PETROCHEMICAL INDUSTRY	V. S. Fedorov	DOMESTIC TRADE	A. I. Struyev
LUMBER, CELLULOSE-PAPER & WOODWORKING INDUSTRY	N. V. Timofeyev*	RECLAMATION & WATER ECONOMY	Ye. Ye. Alekseyevskiy
CONSTRUCTION MATERIALS INDUSTRY	I. A. Grishmanov	ASSEMBLY & SPECIAL CONSTRUCTION WORK	F. B. Yakubovkiy
LIGHT INDUSTRY	N. N. Tarasov		

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*Not carried over from the corresponding state committee.

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agencies accompanied the organizational shake-up. Chief among the changes affecting the economy were the replacement of P. F. Lomako by N. F. Baybakov as chairman of Gosplan; the appointment of V. Ye. Dymshits, former head of the USSR Sovnarkhoz, as chairman of the new State Committee for Material and Technical Supply; the elevation of central committee presidium member and agricultural policy specialist D. S. Polyanskiy to first deputy chairman of the Council of Ministers; and the replacement of K.N. Rudnev by V. A. Kirillin as chairman of the State Committee for the Coordination of Scientific Research, which was renamed the State Committee for Science and Technology. Lomako and Rudnev were appointed heads of two of the new ministries. Kirillin was a vice president of the Academy of Science, USSR.

Although most of the heads of the new ministries had been chairmen of the abolished state committees, eight state committee chairmen lost positions on the Council of Ministers in the shuffle. Heads of new ministries now elevated to ministerial rank include four chairmen of regional sovnarkhozes and an official of the RSFSR republic sovnarkhoz.

The fate of most of the key personnel of the abolished agencies has yet to be announced but they probably will be absorbed into the new ministries. Brezhnev, in his plenum speech, of-

ferred reassurances that jobs would be found for all displaced personnel, although Kosygin specifically called for some reduction in the total number of persons engaged in administration. Kosygin's views on the proper role of the party as overseer of the economy appear to be in marked contrast to those of Khrushchev. Whereas Khrushchev felt it necessary for the party to intervene directly in economic management, Kosygin appears to believe that the party should "stay on the street, but keep out of the traffic."

Prospects for the Administrative Changes

Kosygin's speech does not display enthusiasm for administrative reshuffling--perhaps because Khrushchev's successive rounds of reorganization in industry and agriculture produced no visible improvements in performance. The most obvious conclusion to be drawn from Khrushchev's many experiments is that it does not make much difference whether industries are organized by ministry or by region, whether planning is done at the republic of national level, or to what degree the party is instructed to oversee and second-guess economic managers. The pervasive problems of coordination persisted through all the reorganizations, and the efficiency of investment continued to decline.

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There is some evidence that problems of coordination may have grown under the sovnarkhoz system. The harshness of Kosygin's, and Brezhnev's, attacks on the system attest to this. They have castigated the sovnarkhozes for complicating the attainment of unified central direction of the economy, for the growth of the dead weight of bureaucracy, for the pursuit of local advantage, for the lag in introducing new technology suggested by the impatient state committees, for the decline in the return on investment, and for the increasing backlog of uncompleted construction.

At best, however, the new leaders can hope for only a few marginal improvements from the return to ministries. There may be closer coordination between research and development and producing enterprises, standardized models and spare parts may now be produced nationally, and coordination of supply with production plans may be simplified. In spite of Kosygin's defensive claim that the reorganization does not mechanically restore the old ministerial system, many of the old problems that the 1957 reorganization sought to overcome--such as branch-of-industry autarchy, lengthy lines of communication, and failures of regional coordination among different branches--may now reappear.

Prospects for Changes in Enterprise Management

Kosygin's objectives are to spur new technology and to increase the return on investment while retaining strong central control over industry. Most Western observers, and a few Soviet economists, have concluded that the system of central planning is at fault in producing Soviet economic ills and must be drastically reformed. But Kosygin has introduced nothing new. There is little chance that his cautious proposals for improving enterprise management will produce fundamental gains in economic performance.

The failure to specify radical improvements in the method of pricing would seem to nullify much of the benefit to be gained by giving enterprise managers more freedom of decision making. It is difficult to see how rational decisions can be made with irrational prices. Kosygin's proposals appear to be an extension of some of the features of relatively liberal experiments conducted in the USSR, but they lag behind the proposals that have recently been introduced in several Eastern European Communist countries. It seems clear that under the proposals the Soviet manager still will have relatively little freedom of choice.

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